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LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT

Annual Report on Administration of the
Act During Fiscal Year 1988
Submitted to Congress 1990

U.S. Department of Labor
Employment Standards Administration

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U.S. Department of Labor
Elizabeth Dole, Secretary

Employment Standards Administration
William C. Brooks, Assistant Secretary

The Secretary of Labor has determined that the publication of this periodical is necessary in the transaction of public business as required by law. Use of funds for printing has been approved by the Director of the Office of Management and Budget.

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

JUN 1 1990

THE HONORABLE PRESIDENT OF THE SENATE
THE HONORABLE SPEAKER OF THE HOUSE OF REPRESENTATIVES

Gentlemen:

Transmitted herewith is the Department of Labor's annual report to Congress as required by Section 42 of the Longshore and Harbor Workers' Compensation Act (LHWCA), as amended. The report covers administration of LHWCA for the period October 1, 1987, through September 30, 1988.

The report includes a summary of the LHWCA Amendments of 1984, and discussions on program administrative and operations activities, findings and recommendations of an audit of Special Fund accounts, new program initiatives, and significant litigation and regulatory activities which took place under LHWCA during Fiscal Year 1988.

Sincerely,

Elizabeth Dole

Enclosure

Acknowledgements

This report is required by section 42 of the Longshore and Harbor Workers' Compensation Act, as amended. The report was prepared by James R. Rechnitzer under the direction of Willis J. Nordlund, Director, Division of Program Development and Research, Employment Standards Administration. Assistance in the preparation of the report was provided by the Employment Standards Administration's Office of Workers' Compensation Programs, the Office of the Solicitor's Division of Employee Benefits, and the Office of the Assistant Secretary for Policy.

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I. THE LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT

A. Introduction

The Longshore and Harbor Workers' Compensation Act (LHWCA) and its extensions, administered by the U.S. Department of Labor's Employment Standards Administration, Office of Workers' Compensation Programs (OWCP), provide medical benefits, compensation for lost wages, and rehabilitation services to employees who are injured during the course of employment or contract an occupational disease related to employment. Survivor benefits also are provided if the work-related injury causes the employee's death.

These benefits are paid directly by an authorized self-insured employer; or, through an authorized insurance carrier; or, in particular circumstances, by a Special Fund.

The original law, entitled Longshoremen's and Harbor Worker's Compensation Act (Public Law 803), was enacted in 1927. The Act resolved a problem of worker coverage when the worker's activity was on the navigable waters of the United States. Before enactment of the law, state workers' compensation programs applied to injuries occurring on land, and the Supreme Court had held that a state could not extend its workers' compensation remedy to cover longshoremen injured over the navigable waters of the U.S.1/ The Act provided uniform and continuous protection for workers covered by its provisions.

In addition to longshore, harbor, and other maritime workers, LHWCA covers a variety of other employees through the following extensions to the Act: The District of Columbia Workmen's Compensation Act (enacted in 1928 and repealed effective July 26, 1982); Defense Base Act (1941); Nonappropriated Fund Instrumentalities Act (1952); and, the Outer Continental Shelf Lands Act (1953).

This Annual Report provides a summary of the 1984 amendments to the Act; administrative and oversight activities during Fiscal Year (FY) 1988, including an overview of program operations, results of an audit of Special Fund accounts, significant litigation and regulatory activities, and new program initiatives; and, statistical appendices.2/

1/ Southern Pacific Co. v. Jensen, 244 U.S. 205 (1917).

2/ For more detailed background information on the legislative history of the Act, program operational characteristics, and other aspects of LHWCA and its extensions, see secs. I. and II. of the original report to Congress entitled Longshore and Harbor Workers' Compensation Act: Annual Report on Administration of the Act During Fiscal Year 1985, U.S. Dept. of Labor/ESA; submitted to the Congress June 4, 1986.

B. 1984 Amendments

There have been a series of amendments to the Act over the years, the most recent of which were the LHWCA Amendments of 1984 (Public Law 98-426, 98 Stat. 1639), enacted on September 28, 1984. The changes made by some of the major provisions of the 1984 amendments include:

1. Jurisdiction. The Act's jurisdiction was clarified and limited by exclusion of certain groups of employees and facilities from LHWCA coverage, to the extent workers are covered under a state workers' compensation law.

2. Benefits. Compensation for unrelated death was eliminated; a 5-percent ceiling was placed on annual increases in compensation payable under section 10 for permanent total disability and death; death cases are now subject to the maximum weekly benefit; and, for the purpose of calculating benefit rates, wages are defined to exclude fringe benefits.

3. Fraud and Abuse. To provide additional safeguards against fraudulent activities by employees to obtain benefits, and by employers or insurance carriers to deny, reduce, or terminate benefits, fines and penalties for such actions were increased. In addition, provisions were added authorizing the Secretary to debar health care providers and claimant representatives for fraud or abuse.

4. Occupational Disease. A method of computing compensation for victims of latent disabilities due to occupational disease which do not become manifest until after the employee retires was established. Also, time of injury was redefined as occurring after the disease becomes manifest and the claimant is aware of the relationship between the disease, resulting disability, and employment; and the time requirements for filing a notice of disease (injury) and a claim for compensation were extended.

5. Special Fund. Uninsured employers and carriers not authorized to write insurance under the Act are prohibited from receiving second injury (section 8(f)) relief; applications for second injury relief must now be filed by employers/carriers with an OWCP deputy commissioner prior to consideration of claims; and, the formula for determining industry assessments was revised to include a factor for section 8(f) cases which are attributable to each employer and insurance carrier.

6. Benefits Review Board. To expedite case processing activities under both the Longshore Act and Black Lung Benefits Act, the permanent membership of the Benefits Review Board was increased from three to five members and the Secretary was authorized to appoint up to four administrative law judges as temporary members.

II. LONGSHORE ADMINISTRATIVE AND OVERSIGHT ACTIVITIES DURING FY 1988

A. Overview of Program Operations

The total cost of operating the workers' compensation program under LHWCA and its extensions in Calendar Year (CY) 1987 was approximately $467 million.1/ These costs include disability compensation and medical benefits paid by employers and insurance carriers, Special Fund payments for compensation and medical/vocational rehabilitation services, Department of Labor (DOL) costs of administering the program and providing related support services, and other payments from DOL-appropriated funds as required under the Act.

In FY 1988, DOL completed its fourth full year administering the 1984 amendments to the Act. Longshore program activities were as follows:

1. Industry Payments. Under sections 7 through 9 of LHWCA, the employer and/or insurance carrier is responsible for providing compensation payments to employees, or their survivors, who incur a work-related injury resulting in disability or death. The employer and/or carrier also is responsible for providing any required medical treatment services related to a covered injury.

   During CY 1987, payments made by self-insured employers and insurance carriers for disability compensation totaled $273.3 million, while medical benefit payments increased about 16-percent to $104.7 million. The $378 million in compensation and benefits paid under the Act and its extensions was nearly 7-percent more than total industry payments in CY 1986.2/

   The increase is associated with a 4-percent rise in the number of cases that received payments during the year. The cumulative number of cases increased from 104,640 in CY 1986 to 108,843 in CY 1987. (See Table A-1 of Appendix A).

2. Cases Compensated. At the end of FY 1988, a total of 17,393 maritime and other workers covered under the Act and its extensions, or their survivors, were in compensation payment status.3/ Table II.A.-1 shows the number of cases being compensated at the end of each year, FY 1976 through FY 1988.

1/ CY 1987 is the last complete year for which total costs were available at the time this report was prepared.

2/ Total compensation payments are reported by industry to DOL on a calendar year basis.

3/ Excluding cases under the District of Columbia Workmen's Compensation Act of 1928. (See footnote in Table II.A.-1 below).

Table II.A.-1
Cases Compensated Under LHWCA
(FY 1976 - FY 1988)

FY	Cases at End of FY*
1976	15,259
1977	16,899
1978	16,168
1979	16,965
1980	20,716
1981	21,430
1982	20,869
1983	20,128
1984	18,746
1985	18,471
1986	19,402
1987	19,066
1988**	17,393

* Number of cases in compensation payment status at the end of September, including Special Fund cases.

** Beginning in FY 1988, cases under the District of Columbia Workmen's Compensation Act of 1928 (DCCA) previously handled by OWCP (where injury occurred prior to July 26, 1982) are excluded.4/

3. Lost-Time Injuries. The number of lost-time injuries reported by employers and insurance carriers during FY 1988 was 40,528, a decrease of nearly 2,600 from the previous year.5/ While there were fluctuations in the number of lost-time injury reportings in several District Offices, this decrease can be attributed primarily to a decline in the number of reportings in the Jacksonville District Office. In the previous two years, that office experienced significant increases in hearing loss claims, raising the total number of new injury reportings to a level above their historical experience.

At this time, therefore, the decrease in the total number of lost-time injuries reported appears to be due to reportings

4/ On July 18, 1988, the Director, OWCP, pursuant to sections 39 and 40 of LHWCA, designated a specified official of the District of Columbia (D.C.) government to be a deputy commissioner. While DOL, through the Secretary and OWCP Director, retains full statutory and regulatory authority for administering DCCA, this action delegated administration of cases under DCCA to the D.C. government.

5/ A lost-time injury is a job-related injury which results in an employee's loss of one or more shifts of work. In addition, the Director, OWCP, has construed that this definition also includes injuries where the evidence demonstrates that the employee is entitled to a schedule award under sections 8(c)(1)-(20). (See Industry Notice No. 63 dated May 8, 1987.)

in Jacksonville returning to a normal level, rather than a nationwide trend of reduced reportings. (See Table II.A.-2).

Table II.A.-2
Lost-Time Injuries Reported Under LHWCA
(FY 1976 - FY 1988)

FY	Lost-Time Injuries
1976	48,303
1977	51,981
1978	56,276
1979	68,542
1980	69,941
1981	71,872
1982	64,810
1983	44,702
1984	38,332
1985	40,858
1986	41,299
1987	43,100
1988	40,528

4. Insurance. Section 32 of LHWCA requires that each employer covered by the Act or one of its extensions secure payment of compensation liabilities with either a private insurance carrier authorized by OWCP or by qualifying as a self-insurer to pay benefits directly to injured employees.

In FY 1988, approximately 360 insurance carriers and 415 self-insured employers were authorized to provide workers' compensation coverage under LHWCA. As shown in Table A-1 of Appendix A, the percentage of compensation and benefits paid under the Act by self-insured employers continued to gradually increase to about 46-percent of total industry payments in CY 1987, more than double the proportion of total payments made by self-insurers in CY 1976.

There were a total of 85 new applications for insurance authorization filed with OWCP during the year. Twenty-two applications were received from insurance carriers, of which 20 were approved and 2 denied. The remaining 63 were from employers seeking to qualify as self-insurers; 58 of these applications were approved and 5 denied.

Unlike the insurance carrier insolvencies which occurred over the past couple of years, several major bankruptcies involving self-insured employers had the expected effect of increasing Special Fund expenditures under section 18 of the Act during FY 1988. Most notable was that of Coastal Dry Dock and Repair Corporation (Coastal) which filed for protection in May 1986.

The security deposit posted by Coastal as part of its obligation as a self-insured employer was exhausted during the year. To insure that eligible claimants did not go without compensation, a Stipulation and Order was approved by the Bankruptcy Court on December 27, 1987, permitting the continued processing and adjudication of claims filed against Coastal under the Act. Pursuant to this Stipulation and Order, OWCP was authorized, if appropriate, to deem Coastal in default under section 18(a) and to pay benefits from the Special Fund as provided in section 18(b), which it did.

Approximately $3 million was disbursed by the Special Funds under section 18 during FY 1988, and this level of expenditure can be expected to continue through FY 1989 until the affected cases have been completely adjudicated.

There were no bankruptcies/insolvencies during FY 1988 of the magnitude of the Coastal case, but as noted above, section 18 case activity and expenditures are expected to remain high during the upcoming year.

5. Annual Adjustments in Compensation and Maximum-Minimum Payments. Under section 10(f) of LHWCA, on October 1 of each year there is an adjustment to the benefits payable for permanent total disability or death. The increase each year is either the percentage by which the National Average Weekly Wage (NAWW)6/ exceeds the previous NAWW, or 5-percent, whichever is less. In FY 1988, the NAWW increased 1.92-percent to a level of $308.48.

Sections 6(b) and 9(e) provide the maximum and minimum compensation payable under the Act. Disability compensation or death benefits are limited to a maximum amount equal to 200-percent of the NAWW, applicable at the time of injury or death, or the employee's full average weekly wages, whichever is less. The maximum weekly compensation rate corresponding to the NAWW for FY 1988 was $616.96.

The minimum compensation payable for total disability is the lesser of 50-percent of the applicable NAWW ($154.24 in FY 1988) or the employee's average weekly wage at the time of injury.

See Table A-2 in Appendix A for the levels of annual compensation adjustments and the maximum and minimum compensation rates in effect during FY 1988 and historically for the period subsequent to the 1972 amendments.

6/ The National Average Weekly Wage (NAWW) is based on the national average weekly earnings for the three consecutive quarters ending each June 30 of production and nonsupervisory workers in private nonagricultural employment as determined by the Bureau of Labor Statistics.

6. Medical and Vocational Rehabilitation. Medical and vocational rehabilitation and maintenance services are provided for in sections 39(c) and 8(g) of the Act, respectively. The rehabilitation program provides permanently disabled employees with early referral to and the benefit of required medical and vocational rehabilitation services to enhance an employee's chances for an early return to work.

Special Fund expenditures authorized by OWCP for vocational and medical rehabilitation services were approximately $3.6 million in FY 1988. The largest single expenditure was $2.9 million in reimbursements for the retraining or job placement of injured workers as provided under section 39(c). The remainder of Fund expenditures for rehabilitation services consisted of additional compensation in the form of a maintenance allowance provided under section 8(g) to workers undergoing vocational rehabilitation; and, under section 39(c), the salaries and expenses for rehabilitation specialists and procurement of prosthetic appliances and other medical apparatus.

Approximately two-thirds of those disabled employees participating in vocational rehabilitation services funded by the Special Fund during FY 1988 were receiving job placement assistance only. The remaining one-third were receiving both job placement and training services.

During FY 1988, 294 disabled workers were successfully rehabilitated and were able to return to work. As in the past, the majority of these workers were covered under the original LHWCA (as opposed to the subsequent extensions to the Act) and prior to their injury were primarily employed in the shipbuilding industry. The average yearly compensation rate for these injured workers was $12,540. At this rate, estimated total savings in compensation payments on an annual basis would be nearly $3.7 million. Approximately 70-percent of these workers were placed in jobs with new employers while the remaining 30-percent were placed with their previous employers.

At the close of FY 1988, 1,162 rehabilitation cases were classified as ongoing (cases in which a disabled employee has not returned to work). Of these cases, 949 were opened for referral to job placement and training services during the year.

7. Special Funds. Two Special Funds are administered by OWCP under section 44 of the Act: the LHWCA Special Fund created under the original Act in 1927 and the Special Fund under the

District of Columbia Workmen's Compensation Act of 1928.7/ These Funds were established for the primary purpose of equitably distributing among all employers the liabilities associated with second injury claims.8/

The sources of payments into the Special Funds include: fines and penalties levied under the Act; payment by employers of $5,000 for each death case when there is no survivor entitled to the benefits; interest payments on Fund investments; and, payment of annual assessments by self-insured employers and insurance carriers.

Proceeds of the Funds are used for payments under: section 8(f) for second injury claims; section 10(h) for initial and subsequent annual adjustments in compensation for permanent total disability or death from injuries which occurred prior to the 1972 amendments; sections 39(c) and 8(g) for the procurement of medical and vocational rehabilitation services for permanently disabled employees and to provide a maintenance allowance to workers undergoing rehabilitation; section 18(b) for compensation to injured workers in cases of employer default; and, section 7(e) for the cost of certain medical examinations.

LHWCA Special Fund expenditures during FY 1988 were $64.3 million. Approximately 85-percent of these costs were attributable to compensation payments in the amount of $54.7 million for 3,436 second injury cases under section 8(f). Total receipts of the Fund in FY 1988 were $63.4 million. Assessments paid by employers and insurance carriers accounted for approximately 98-percent of these receipts. A total of $60.6 million in assessment payments were received by the Fund in FY 1988.

FY 1988 expenditures of the DCCA Special Fund totaled $10.8 million. As with the LHWCA Fund, the largest portion of DCCA Fund expenditures (87-percent totaling $9.4 million) went towards compensation payments for 696 section 8(f) cases.

7/ For Special Fund purposes, the DCCA covers all private employees working for employers carrying on any employment in D.C. who incurred a work-related injury based upon an employment event that occurred prior to July 26, 1982.

8/ A second injury is an injury to a worker which, in combination with an existing permanent condition, results in the worker's increased permanent partial disability, permanent total disability, or death.

Receipts were $7.1 million, about 95-percent of which came from assessments paid by employers and insurance carriers. During FY 1988, assessment payments received totaled $6.7 million.9/

The second highest amount of compensation-related expenditures for both Funds was payments for annual adjustments in compensation for pre-1972 amendment (section 10(h)) cases. Fifty percent of 10(h) payments are paid by the Special Fund and 50-percent through DOL appropriations. FY 1988 payments to 10(h) cases accounted for 5-percent ($3.1 million) and 8-percent ($0.9 million) of total expenditures of the LHWCA and DCCA Funds, respectively.

In October 1988, the portion of 10(h) payments funded by DOL appropriations, including the October 1, 1988, recurring adjustment, amounted to $147,870 per recurring bi-weekly payment period ($34,152 for the DCCA appropriation and $113,718 for the LHWCA appropriation). At this rate, the annual DOL appropriation costs, and thus the cost to the Funds, would be approximately $3.8 million in FY 1989.

These adjustments are being paid on a declining base number of pre-1972 injury cases. The FY 1989 adjustment was applied to 1,199 10(h) cases, a decrease of over 24-percent since FY 1983. The attrition in cases receiving the annual adjustment is due to the death of beneficiaries. (See Table II.A.-3).

Table II.A.-3
Cases Receiving Annual Section 10(h) Adjustments
(FY 1983 - FY 1989)

Adjustment Date (FY)	DCCA Cases	LHWCA Cases	Total	% Change in Total
10/1/82 (1983)	374	1,211	1,585	--
10/1/83 (1984)	356	1,164	1,520	-4.1%
10/1/84 (1985)	346	1,129	1,475	-3.0
10/1/85 (1986)	332	1,084	1,416	-4.0
10/1/86 (1987)	313	1,023	1,336	-5.6
10/1/87 (1988)	293	965	1,258	-5.8
10/1/88 (1989)	280	919	1,199	-4.7

9/ DCCA Fund assessment receipts are considerably lower compared to FY 1987 due to the over $4 million in past due assessments reimbursed to the Fund last year by the Washington Metropolitan Area Transit Authority (WMATA) when the Supreme Court let stand lower court decisions that WMATA was not immune from paying Special Fund assessments. These withheld payments, covering WMATA's assessments for half of CY 1983, and CY 1984 through CY 1986, essentially served to reduce all other employer's/carrier's FY 1988 assessments.

For a detailed accounting of Special Fund expenditures and industry assessments for FY 1988 as summarized above, and for prior years, see Tables A-3 and A-4 in Appendix A.10/

Total (LHWCA and DCCA) Special Fund expenditures in FY 1988 increased by nearly 6-percent over the previous year. Although this trend of increasing Fund payments has been continuous, the annual rate of growth has slowed in recent years. A large portion of the increase in expenditures is due to the continued receipt of new 8(f) cases into the Funds at a rate faster than can be offset by attrition in existing cases.

8. Case Processing. There were 47,030 lost-time injury cases closed at the District Office level during FY 1988. The number of open cases being processed for various reasons at the end of the year was 57,437. The pending inventory of cases was 6,105 at the end of FY 1988. The pending inventory consists of all cases in the offices requiring any type of action, including new cases to be docketed and cases requiring review or processing.11/

During FY 1988, the Office of Administrative Law Judges (OALJ) received nearly 4,100 new LHWCA/DCCA cases for formal hearings. These cases were in addition to an existing inventory from FY 1987 of almost 3,400 cases, resulting in a total docket of cases at OALJ of about 7,500. There were over 3,100 dispositions (cases closed) during the year, leaving a pending inventory at OALJ at the end of FY 1988 of approximately 4,300 cases.

At the Benefits Review Board (BRB), approximately 500 new appeals under LHWCA/DCCA were received in FY 1988. The total case docket at BRB, including 1,400 cases pending from the previous year, was about 1,900. After a BRB decision was issued on nearly 700 cases, a pending inventory of approximately 1,200 cases remained at the end of FY 1988.

See Appendix A (Table A-5) for a summary of case processing activities at both OALJ and BRB for FY 1988 and the previous several years.

10/ In order to be consistent with previous annual reports, Special Funds' receipt and expenditure data are reported here and in Appendix A on a cash basis. In contrast, beginning in FY 1987 the financial statements in the audit of Special Fund accounts required by section 44(j) and included as Appendices B and C are based on the accrual method of accounting (i.e., revenues are reported when earned rather than when received and expenses are recognized when incurred rather than when paid).

11/ District Office case processing activity figures do not include cases covered under DCCA as administration of those cases was delegated to the D.C. government.

9. Organizational Structure and Staffing. The LHWCA is administered by the Division of Longshore and Harbor Workers' Compensation (DLHWC) within OWCP. During FY 1988, DLHWC had the same total authorized staffing level as the previous year, i.e., 144 full-time equivalent (FTE) positions.

As shown in Table II.A.-4, the National Office in Washington, D.C., had 19 FTE positions while the remaining 125 positions were located in 13 DLHWC District Offices.

Table II.A.-4
FY 1988 Staffing and District Offices, By Region

DOL Region	Authorized FTE Positions*	DLHWC District Offices
I (Boston)	17	Boston, Massachusetts
II (New York)	12	New York, New York
III (Philadelphia)	18	Philadelphia, Pennsylvania Baltimore, Maryland Norfolk, Virginia
IV (Atlanta)	16	Jacksonville, Florida
V (Chicago)	5	Chicago, Illinois
VI (Dallas)	23	New Orleans, Louisiana Houston, Texas
IX (San Francisco)	22	San Francisco, California Honolulu, Hawaii Long Beach, California
X (Seattle)	12	Seattle, Washington
Regions	125	
National Office	19	
TOTAL	144	

* Includes one vocational rehabilitation specialist in each Region except Dallas, which has two, and one in the National Office.

The organizational structure of DLHWC was amended by two significant changes in FY 1988. First, administration of non-Special Fund cases under DCCA which was previously under DLHWC District Office control was delegated to the D.C. government effective July 18, 1988. While not affecting any statutory or regulatory authority vested in the Secretary of Labor or Director, OWCP, this action completes the transition which began in 1980 when D.C. enacted legislation establishing its own workers' compensation program for workers in private industry injured after July 25, 1982.

Secondly, the DLHWC National Office was reorganized to better meet current needs. Principal changes included creation of a new Branch of Financial Management and Insurance with consolidated functions to meet the complex and growing responsibilities of developing and maintaining the Special Funds, and the establishment of a position of Deputy Associate Director to support the day-to-day management of program activities.

The reorganized office structure of DLHWC now parallels that of the other divisions of OWCP, thus enabling improved coordination with various staff units. Overall, the reorganization enhances management by improving chain of command lines of authority and by placing similar functions into a composite group under proper supervision.

10. Administration Costs. Total expenditures for program operations and the overall administration of LHWCA were $12.0 million in FY 1988. These administrative costs include salaries and expenses for the Employment Standards Administration (ESA) and DOL management support services provided by the Office of the Solicitor (SOL), Office of the Inspector General (OIG), OALJ, and BRB.

Table II.A.-5 below shows the levels of staff and costs associated with the administration of the Act for the past several years.

Table II.A.-5
DOL Costs of Administering LHWCA
FY 1986 - FY 1988
(staff in FTE years and cost in $ thousands)

	FY 1988		FY 1987		FY 1986	
DOL Office	Staff	Cost	Staff	Cost	Staff	Cost
Total	247	$11,954	263	$13,473	259	$11,078
Direct (ESA/OWCP)	146	7,106	141	6,826	150	6,780
Departmental Mgmt.	101	4,848	122	6,647	109	4,298
SOL*	35	1,926	35*	1,880*	8	400
OIG	7	474	4	259	8	494
OALJ**	25**	1,604**	49	3,631	54	2,787
BRB	34	844	34	877	39	617

* Additional staff and an associated increase in administrative costs were authorized for SOL in FY 1987 in order to decentralize section 8(f) litigation responsibilities. The 1984 amendments gave increased authority to OWCP District Offices regarding the filing, processing, and adjudication of section 8(f) cases.

** The decreases in OALJ resources in FY 1988 are due to the transfer of FTE to traditional (non-LHWCA) cases and the loss of FTE as a result of the Gramm-Rudman-Hollings reductions.

B. Special Funds Audit

An annual audit of Special Fund accounts is required by section 44(j) of the Act. The audit is performed by a public accounting firm under contract to the Office of the Inspector General.

The FY 1988 audit reports for the DCCA and LHWCA Special Funds contain financial statements, independent accountants' opinions, reports on internal accounting controls and compliance activities, and ESA's responses to the findings and recommendations.

For both Funds, the auditor found that the financial statements are presented fairly and in accordance with generally accepted accounting principles except for the omission of comparative financial statements; improvements are needed in internal accounting controls related to financial reporting and accounts receivable recordkeeping procedures; and, for all items tested except those related to the internal control findings, DLHWC was in compliance with applicable laws and regulations.

The ESA and OWCP management have taken actions or have made appropriate plans to address all of the auditor's recommendations in order to correct deficiencies noted in the report's findings.

The complete DCCA and LHWCA Special Fund audit reports can be found in Appendices B and C, respectively.

C. Litigation Activities

LHWCA litigation before the United States courts of appeals was very extensive, resulting in the publication of twenty-seven opinions. Almost half of these opinions established precedents or significantly clarified existing constructions of the Act:

1. Benefit Offsets and Credits. In Todd Shipyards Corporation v. Director, OWCP, 848 F.2d 125 (1988), the Ninth Circuit affirmed a BRB decision holding that an injured worker may collect compensation benefits under LHWCA for the full extent of his disability even though he is also receiving benefits from the Veterans Administration (VA) for a portion of his disability resulting from military service. The court further held that no offset or credit is permitted. The court's decision affirmed BRB on the ground that VA disability benefits are not paid under a "workers' compensation law" so that the "credit doctrine" codified in section 3(e) of the Act does not apply to reduce the employer's compensation liability. The court recognized that there is no provision in the statute that expressly permits the deduction of VA disability benefits from compensation being awarded under LHWCA and that the VA statutes and regulations highlight a congressional intent to treat disabled veterans differently from individuals injured in an occupation covered under a traditional workers' compensation law.

2. Employer's Burden of Proof. Issues involving the scope of an employer's burder of proof to establish the availability to its injured employee of regular and continuous "suitable alternate employment" so as to reduce or eliminate its compensation liability to a claimant who is unable to return to his usual work, were decided by three courts:

   a) In Newport News Shipbuilding & Dry Dock Co. v. Tann, 841 F.2d 540 (4th Cir. 1988), the court held that credible evidence of past job openings available during the time claimant was able to do other kinds of work was sufficient to meet the employer's burden.

   b) The same court, in another opinion, held that if a vocational expert is able to identify and locate only one employment position, it is manifestly unreasonable to conclude that an individual would be able to seek out and secure that specific job; the employer, therefore, failed to carry its burden of proof. Lentz v. The Cottman Co., 852 F.2d 129 (4th Cir. 1988).

   c) The D.C. Circuit held that to carry its burden of proof an employer is required to show the availability of alternate employment within the geographic area where the claimant resides and should take into consideration the claimant's age, education and work experience. McBride v. Eastman Kodak Co., 844 F.2d 797 (D.C. Cir. 1988).

   d) In Hairston v. Todd Shipyards, 849 F.2d 1194 (9th Cir. 1988), the court held that to show job availability, it is not sufficient for the employer to point to specific jobs the claimant can physically perform; because, factors such as the claimant's technical or verbal skills must be taken into consideration when defining the types of alternate work available and the employer must show that given the claimant's age, education and background, there is a reasonable likelihood that he would be hired if he diligently sought the job. The Hairston opinion is the clearest and most comprehensive expression of the employer's burden so far provided by a court.

3. Limitation of Employer Liability. The provisions of section 8(f), under which an employer may seek to limit its compensation liability for permanent disability attributable to an injury or disease which, in combination with a known prior impairment, has more serious consequences than would have resulted from the injury or disease alone, continue to generate litigation in the courts of appeals.

   a) In Bechtel Associates, P.C. v. Sweeney, 834 F.2d 1029 (D.C. Cir. 1987), the court upheld the BRB's determination that the employer was not entitled to the section 8(f) limitation of liability because the employer failed to prove that a work-related aggravation of the

employee's pre-existing lung condition had occurred, so that no "second injury," a prerequisite for section 8(f) relief, had been established.

b) Similarly, the Eleventh Circuit affirmed a decision denying section 8(f) relief on grounds that the evidence failed to establish actual aggravation of a pre-existing lung disorder and that a total disability resulting from nothing more than the natural progression of a pre-existing partial disability cannot be considered a "second injury." The panel expressly rejected the argument that the mere exposure to asbestos alone was sufficient to establish a "second injury" within the meaning of section 8(f). Jacksonville Shipyards, Inc. v. Director, OWCP, 851 F.2d 1314 (11th Cir. 1988) (on rehearing, vacating prior opinion at 842 F.2d 1253).

4. Jurisdiction. The Act's definition of coverage with regard to employment activities and situs again generated several significant decisions by the circuit courts:

a) At issue in Sanders v. Alabama Dry Dock & Shipbuilding Co., 841 F.2d 1085 (11th Cir. 1988), was whether a management employee whose duties involved labor relations at a shipyard was covered by LHWCA for compensation purposes. The court held that Sanders was a covered employee, explaining that whether particular job skills are uniquely maritime is not dispositive in determining whether the "status test" is satisfied, but rather the proper focus should be on whether the purposes served in applying the job skills directly relate to furthering the shipbuilding and ship repair operations of a covered employer.

b) The Fifth Circuit held that an employee, injured while welding an oil drilling platform at a shipyard on shore was covered by the Outer Continental Shelf Lands Act (OCSLA) extension of LHWCA because platform construction is included in the statute's definition of "development" (of the Shelf) and that "but for" operations on the Shelf, the platform would not have been built and the employee would not have been injured. Mills v. Director, OWCP, 846 F.2d 1013 (5th Cir. 1988) (rehearing en banc granted and oral argument scheduled for February 1989).

c) The Third Circuit held covered by OCSLA an employee injured in an automobile accident in New Jersey while driving to meet a helicopter to be transported back to an offshore oil drilling platform, reasoning that "but for" his travelling to the drilling rig for the purpose of conducting operations on the Shelf, the employee would not have been injured. Curtis v. Schlumberger Offshore Service, Inc., 849 F.2d 805 (3rd Cir. 1988).

5. Discrimination Against Employees. Three courts addressed issues arising under section 49, 33 U.S.C. 948a., the unlawful discharge provision of the Act:

a) In Geddes v. WMATA, 851 F.2d 440 (D.C. Cir. 1988), the court affirmed a BRB decision which had held that the Washington Metropolitan Area Transit Authority (WMATA) did not prevent Geddes from returning to work after recovering from a compensable injury and so did not discriminate against him because he had filed a compensation claim.

b) In Holliman v. Newport News Shipbuilding and Dry Dock Co., 852 F.2d 759 (4th Cir. 1988), the court found no discrimination against a compensation claimant under employer enforcement of a rule calling for automatic discharge of employees absent without leave for five consecutive working days without notification to the employer on the reasoning that the rule was customarily enforced against all employees regardless of the reason for absence from work.

c) At issue in Norfolk Shipbuilding & Drydock Corp. v. Nance, 858 F.2d 182 (4th Cir. 1988), was (1) whether an Administrative Law Judge (ALJ) properly excluded testimonial evidence of an oral agreement that the employee voluntarily agreed to quit his job as part of a settlement approved under section 8(i), and (2) whether substantial evidence supported the finding that the employer violated section 49. Upholding the exclusion ruling, the court majority concluded, "The terms of the settlement agreement, in conjunction with the statutes and regulations that govern its effect, prohibit enforcement of any verbal agreement by Nance to leave his job not included in the settlement terms not set forth in the LS-471 agreement." 858 F.2d at 186. The court also upheld the finding that the employer violated section 49 of the Act as supported by substantial evidence.

d) In a related case, the First Circuit held that where an injured worker establishes entitlement to disability compensation but fails to prove retaliation in violation of section 49, an ALJ might properly award attorney fees only for the hours spent on the successful disability claim. General Dynamics Corp. v. Horrigan, 848 F.2d 321 (1st Cir. 1988), cert. den. 109 S.ct. 554 (1988).

6. Settlement of Compensation Claim. Whether an insurance carrier could withdraw a settlement offer to a disabled employee after the proposed settlement had been submitted to a deputy commissioner for approval, but before the deputy commissioner had acted on it, was the important issue addressed in Oceanic Butler, Inc. v. Nordahl, 842 F.2d 773 (5th Cir. 1988). While the proposed settlement was pending

before the deputy commissioner, the employee died. The court held that an employer and insurer did not have the right to withdraw from the settlement, that the authority of the deputy commissioner to approve the settlement was not affected by the employee's death before approval, and that the employer and insurer were not entitled to offset the settlement amount against their compensation liability to the employee's widow for death benefits.

7. Third-Party Settlement. The following cases involve the payment of compensation under section 33 of LHWCA when a person other than the employer or a person working for the employer is liable:

   a) At issue in James Ray Jackson v. Land & Offshore Services, Inc., 345 F.2d 1323 (5th Cir. 1988), was whether an injured employee's agreement to settle a third-party action, while receiving compensation, without the knowledge, consent or approval of his employer barred the worker from future benefits under the Act. In a Per Curiam opinion the court, affirming BRB, held that the employee was barred under section 33(f) from any future recovery of workers' compensation benefits.

   b) The BRB, in a decision issued February 24, 1988, Shoemaker v. Schiavone and Sons, Inc., 20 BRBS 214, held that an employee's failure to comply with the requirements of section 33(g) immediately terminated the employee's right to further compensation. If, however, the employee succeeds in establishing that the termination of payments by the employer was erroneous, the Board noted that the employee would be entitled to an additional assessment under the provisions of section 14(f) of the Act.

8. Penalty for Nonpayment of Compensation. In an unpublished order, the D.C. Circuit summarily affirmed a U.S. District Court order enforcing a Supplementary Compensation Order issued by a deputy commissioner awarding a late payment penalty to the claimant under section 14(f) of the Act, 33 U.S.C. 914(f), even though the claimant's compensation award was vacated on appeal by BRB. The district court held that the employer was compelled to comply with an ALJ's award of benefits within ten days of the decision's filing (absent the timely granting of a stay of payment by BRB), that upon failure to timely pay compensation the penalty automatically attached and that the penalty was due and payable regardless of the validity of the underlying award. Burns v. George Hyman Construction Co., No. 88-5019 (D.C. Cir. May 16, 1988).

D. Regulatory Initiatives

There were no significant regulatory activities related to LHWCA during FY 1988.

E. Significant New Program Initiatives

There were no significant new program initiatives during FY 1988 other than the organizational and administrative changes noted in section II.A.9. above.

III. APPENDICES

Appendix A: Program Statistics

Table A-1. Total Industry Compensation and Benefit Payments Under LHWCA 1/
CY 1976 - CY 1987 2/

($ thousands)

Payments By:	Calendar Year											
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Self-Insured Employers	$ 31,243	$ 46,239	$ 65,166	$ 88,064	$101,621	$123,319	$130,810	$122,974	$121,768	$132,275	$143,801	$172,518
Insurance Carriers	116,300	129,082	147,086	176,244	192,059	213,741	224,495	246,074	229,379	208,155	210,466	205,526
TOTAL PAYMENTS 3/	$147,542	$175,321	$212,252	$264,308	$293,580	$337,060	$355,305	$369,049	$351,147	$340,430	$354,267	$378,044
Number of Cases Involved in Industry Payments	141,182	151,489	157,960	175,969	181,919	178,964	173,693	118,410	98,104	93,000	104,640	108,843

1/ Figures include payments under LHWCA, DCCA, and all other extensions.

2/ Industry payments are reported to the Department of Labor on a calendar year basis.

3/ Due to rounding, the sum of individual items may not equal total.

Table A-2. National Average Weekly Wage (NAWW) and Corresponding Maximum and Minimum Compensation Rates and Annual Adjustments Pursuant to Sections 6(b), 9(e), and 10(f) of LHWCA

Period	NAWW	Maximum Payable	Minimum Payable	Annual Adjustment (% Increase in NAWW)
11/26/72-9/30/73	$131.80	$167.00	$ 65.90	--
10/01/73-9/30/74	140.26	210.54	70.18	6.49%
10/01/74-9/30/75	149.10	261.00	74.57	6.26
10/01/75-9/30/76	159.20	318.38	79.60	6.74
10/01/76-9/30/77	171.28	342.54	85.64	7.59
10/01/77-9/30/78	183.61	367.22	91.81	7.21
10/01/78-9/30/79	198.39	396.78	99.20	8.05
10/01/79-9/30/80	213.13	426.26	106.57	7.43
10/01/80-9/30/81	228.12	456.24	114.06	7.03
10/01/81-9/30/82	248.35	496.70	124.18	8.87
10/01/82-9/30/83	262.35	524.70	131.18	5.64
10/01/83-9/30/84	274.17	548.34 1/	137.09	4.51
10/01/84-9/30/85	289.83	579.66	144.92	5.71 2/
10/01/85-9/30/86	297.62	595.24	148.81	2.69
10/01/86-9/30/87	302.66	605.32	151.33	1.69
10/01/87-9/30/88	308.48	616.96	154.24	1.92

1/ Maximum became applicable in death cases (for any death after September 28, 1984) pursuant to LHWCA Amendments of 1984. Section 9(e)(1) provides that the total weekly death benefits shall not exceed the lesser of the average weekly wages of the deceased or the benefits which the deceased would have been eligible to receive under section 6(b)(1).

2/ Five percent statutory maximum increase applicable in FY 1985 under section 10(f) of LHWCA as amended instead of 5.71%

Table A-3 LHWCA and DCCA Special Funds Expenditures 1/
FY 1976 - FY 1988

($ thousands)

Fiscal Year	LHWCA Expenditures ($) Total	Second Injury Cases 2/	Pre Amendment Cases 3/	Rehab. 4/	Other 5/	Number of Second Injury (8(f)) Cases	DCCA Expenditures ($) Total	Second Injury Cases 2/	Pre Amendment Cases 3/	Rehab. 4/	Other 5/	Number of Second Injury (8(f)) Cases
1976	$ 3,035	$ 80	$ 2,654	$ 65	$ 236	19	$ 1,173	$ 33	$ 968	$ 171	$ 1	5
1977	2,894	296	2,104	188	306	44	707	92	800	154	1	N.A.
1978	3,814	1,071	2,049	396	298	128	1,184	133	674	321	56	N.A.
1979	6,098	2,539	2,517	668	374	297	1,680	382	762	514	22	N.A.
1980	10,144	5,688	2,776	1,052	628	541	2,353	756	915	621	61	103
1981	14,539	10,151	2,005	1,812	571	834	2,907	1,786	624	407	90	139
1982	23,622	16,124	4,539	1,981	978	1,186	5,237	3,527	1,362	238	110	230
1983	31,035	22,582	4,536	2,091	1,826	1,555	6,219	4,595	1,275	231	118	308
1984	37,145	30,746	3,437	2,474	488	1,973	7,543	6,173	1,013	249	108	432
1985	47,047	40,139	3,603	2,604	701	2,513	10,034	8,699	1,118	145	72	518
1986	52,847	46,371	3,254	2,511	711	2,952	10,828	9,611	995	104	118	600
1987	59,448	51,774	3,304	3,154	1,216	3,264	11,551	10,402	975	84	90	686
1988	64,309	54,687	3,083	3,519	3,020	3,436	10,762	9,353	915	35	459	696

1/ Special Fund expenditures shown in this table are reported on a cash basis, i.e., expenses are recognized when paid. Appendices B and C present FY 1988 audited financial statements that were prepared on the accrual basis of accounting (expenses are recognized when incurred rather than when paid and revenues are recognized when earned rather than when received).

2/ Section 8(f) payments to employees who sustain second injuries which, superimposed on a pre-existing injury, results in the employee's permanent disability or death.

3/ Section 10(h) of the Act requires that compensation payments to permanent total disability and death cases, when the injury or death is caused by an employment event which occurred prior to enactment of the 1972 amendments, be adjusted to conform with the weekly wage computation methods and compensation rates put into effect by the 1972 amendments. Fifty percent of any additional compensation or death benefit paid as a result of these adjustments are to be paid out of the Special Fund accounts.

4/ In cases where vocational or medical rehabilitation services for permanently disabled employees are not available otherwise, and for maintenance allowances for employees undergoing vocational rehabilitation, sections 39(c) and 8(g) of the Act authorize the cost of these services to be paid by the Special Funds.

5/ For cases where impartial medical exams or reviews are ordered by the Department of Labor (section 7(e) of Act) and where a compensation award cannot be paid due to employer default (section 18(b)), the expenses or payments resulting from these actions may be covered by the Special Fund. Also included as "Other" expenditures of the Funds are disbursements under section 14(f) to distribute late compensation penalties in FY 1987 and expenditures under section 44(d) to refund assessment overpayments in FY 1987 and FY 1988. Excluded are disbursements from proceeds of employer securities redeemed under section 32 of the Act. These monies are exclusively for payment of compensation and medical benefits to employees of companies in default.

N.A. Data not available.

Table A-4. LHWCA and DCCA Special Funds' Assessments 1/
CY 1976 - CY 1988

($ thousands)

Calendar Year	LHWCA		DCCA	
	Total Industry Assessments 2/	Preceding Year Total Industry Payments (Assessment Base) 3/	Total Industry Assessments 2/	Preceding Year Total Industry Payments (Assessment Base) 3/
1976	$ 2,600	$ 89,265 (CY 1975)	$ 775	$ 26,894 (CY 1975)
1977	3,725	110,585 (CY 1976)	920	36,958 (CY 1976)
1978	4,250	130,188 (CY 1977)	1,250	45,133 (CY 1977)
1979	6,930	161,629 (CY 1978)	2,090	50,623 (CY 1978)
1980	8,000	204,829 (CY 1979)	2,500	59,479 (CY 1979)
1981	18,000	224,863 (CY 1980)	3,500	68,817 (CY 1980)
1982	30,323	263,319 (CY 1981)	5,838	73,741 (CY 1981)
1983	31,624	282,882 (CY 1982)	7,196	72,423 (CY 1982)
1984	40,215	320,409 (CY 1983)	7,927	48,640 (CY 1983)
1985	52,373	315,694 (CY 1984)	10,180	35,454 (CY 1984)
1986	55,181	232,103 (CY 1985) 4/	10,638	18,711 (CY 1985) 4/
1987	59,500	246,519 (CY 1986)	11,274	17,126 (CY 1986)(r)
1988	66,118	257,621 (CY 1987)	6,505	15,695 (CY 1987)

1/ Annual assessments of employers and insurance carriers are the largest single source of receipts to the Special Funds. Other receipts to the Funds include fines and penalties, payments for death cases where there is no person entitled under the Act to the benefit payments, interest earned on Fund investments, overpayment and third party recoveries, and monies received from redemption of securities under section 32 of the Act to pay compensation due employees of companies in default. These payments constitute a small portion of the total receipts of the Special Funds. (See Appendices B and C for detailed financial statements that itemize, on an accrual basis, all Fund receipts for FY 1988).

2/ Assessments as shown here are not receipts to the Fund which were received during a given calendar year, but total assessments which are receivable from employers and insurance carriers based on the Special Fund assessment formula as prescribed under section 44(c) of the Act. (Total Fund assessments reported on the accrual basis during FY 1988 are shown in Appendices B and C.)

3/ Assessments prior to CY 1985 were based on each employer's or carrier's total disability compensation and medical benefit payments under the Act during the preceding calendar year. Beginning with CY 1985, the assessment base also includes a factor for section 8(f) payments attributable to each employer/carrier, as required by the 1984 amendments.

4/ Starting with CY 1986, industry assessments are based on disability compensation payments only, i.e., medical benefits are no longer included in the payment base used in determining annual assessments.

(r) revised

Table A-5. Summary of Case Processing Activities Under LHWCA 1/
FY 1981 - FY 1988

Adjudication Level and Case Status	Fiscal Year 1981	1982	1983	1984	1985	1986	1987	1988
DISTRICT OFFICES:								
Pending Inventory of Cases	13,813	12,919	9,968	7,406	7,503	8,110	10,603	6,105
OALJ:								
Carryover from Previous FY	2,275	2,887	3,650	4,348	4,322	3,576	2,954	3,378
New Cases	3,580	4,029	4,905	4,501	3,183	3,138	3,306	4,080
Total Docket	5,855	6,916	8,555	8,849	7,505	6,714	6,260	7,458
Dispositions	2,968	3,266	4,207	4,527	3,929	3,760	2,882	3,122
Pending Inventory	2,887	3,650	4,348	4,322	3,576	2,954	3,378	4,336
BRB:								
Carryover from Previous FY	777	802	802	1,247	1,387	1,622	1,505	1,398
New Cases	493	542	694	600	632	573	493	454
Total Docket	1,270	1,344	1,496	1,847	2,019	2,195	1,998	1,852
Dispositions	468	542	249	460	397	690	600	684
Pending Inventory	802	802	1,247	1,387	1,622	1,505	1,398	1,168

1/ For FY 1987 and earlier, includes cases under both LHWCA and DCCA. Beginning in FY 1988, DCCA cases are excluded from DLHWC's District Offices' inventory of cases as administration of these cases was transferred to the District of Columbia government effective July 18, 1988. Case processing and adjudication activities at the OALJ and BRB levels continue to include both LHWCA and DCCA cases.

Appendix B: FY 1988 Audit of DCCA Special Fund: Financial Statements and Accountants' Report, September 30, 1988*

* OIG Report No. 03-89-036-04-432, prepared by DeMiller, Denny, Word & Co., CPA, Jackson, Mississippi, December 22, 1988, under contract to DOL's Office of the Inspector General.

DEMILLER, DENNY, WORD & CO.
CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 24027
JACKSON, MISSISSIPPI 39225-4027

Honorable Elizabeth Dole
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

We have audited the accompanying statement of financial position of the U.S. Department of Labor - District of Columbia Workmens' Compensation Act Special Fund, as of September 30, 1988, and the related statements of operations, changes in financial position and reconciliation to budget reports for the year then ended. These financial statements are the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision), issued by the U.S. General Accounting Office. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10, program management has elected not to present comparative financial statements for the year ended September 30, 1987. Management has not presented comparative financial statements since the financial statements for 1987 did not present the four required financial statements and to do so for 1988 presentation would require the reissuance of the prior year report. Comparative financial statements are required by General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting.

In our opinion, except that the omission of comparative financial statements results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor - District of Columbia Workmens'

Compensation Act Special Fund as of September 30, 1988, and the results of its operations, changes in financial position and reconciliation to budget reports for the year ended September 30, 1988, in conformity with generally accepted accounting principles for Federal agencies.

Deloitte, Denny, Ward + Co.

December 22, 1988

DISTRICT OF COLUMBIA WORKMEN'S COMPENSATION ACT
SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1988

ASSETS	
Funds with U.S. Treasury	$ 276,319
Investments (Note 2)	5,522,581
Accounts receivable, net of allowance doubtful accounts of 63,568 (Note 3)	242,004
Accrued interest receivable	38,980
Total assets	$6,079,884
LIABILITIES	
Accounts payable (Note 4)	$1,614,933
Deferred revenue (Note 5)	1,626,291
Total liabilities	3,241,224
EQUITY (Notes 6,7, and 8)	
Fund balance	2,838,660
Total liabilities and equity	$6,079,884

The Notes to Financial Statements are an integral part of this statement.

DISTRICT OF COLUMBIA WORKMEN'S COMPENSATION ACT
SPECIAL FUND
STATEMENT OF OPERATIONS
Year Ended September 30, 1988

REVENUES	
Assessments	$ 6,217,895
Investment income	349,607
Other income	2,118
Total revenues	6,569,620
EXPENSES	
Second injury compensation-Section 8(f)	8,391,929
Wage increase compensation-Section 10(h)	818,617
Compensation payment for self-insurer in default-Section 18(b)	771,987
Rehabilitation-Section 39(c)	31,888
Maintenance payment compensation-Section 8(g)	2,815
Medical services-Section 7(e)	1,209
Total expenses	10,018,445
Net results of operations	$(3,448,825)

The Notes to Financial Statements are an integral part of this statement.

DISTRICT OF COLUMBIA WORKMEN'S COMPENSATION ACT
SPECIAL FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended September 30, 1988

SOURCES OF FUNDS:	
Total revenues	$ 6,569,620
Sale of investments	29,374,137
Increase in accounts payable	588,015
Total sources of funds	36,531,772
USES OF FUNDS:	
Total expenses	10,018,445
Purchases of investments	27,429,724
Increase in accrued interest receivable	3,356
Increase in accounts receivable	5,993
Decrease in deferred revenue	547,633
Total uses of funds	38,005,151
Decrease in funds	(1,473,379)
Funds with U.S. Treasury - September 30, 1987	1,749,698
Funds with U.S. Treasury - September 30, 1988	$ 276,319

The Notes to Financial Statements are an integral part of this statement.

DISTRICT OF COLUMBIA WORKMEN'S COMPENSATION ACT
SPECIAL FUND
STATEMENT OF RECONCILIATION TO BUDGET REPORTS
Year Ended September 30, 1988

Total expenses per Statement of Operations:	$10,018,445
Reconciling items:	
Increase in claimant overpayments	96,236
Refund of prior year overpayments	274,467
Increase in accounts payable to claimants	372,874
Outlays	$10,762,022

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The reporting entity is the District of Columbia Workmens' Compensation Act Special Fund (Fund) for injury cases with dates prior to July 26, 1982. The Fund is administered by the Employment Standards Administration (ESA) which is an agency within the United States Department of Labor. Within ESA, the Division of Longshore and Harbor Workers' Compensation has direct responsibility for operation of the Fund. The Fund offers compensation and medical care payments to District of Columbia employees for work related injuries or death. Effective July 26, 1982, the District of Columbia Workmens' Compensation Act was amended whereby the Mayor of the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982 injury cases.

Administrative services for operating the Fund are provided by the Division of Longshore and Harbor Workers' Compensation at no cost to the Fund.

Additionally, the District of Columbia Workmens' Compensation Act (Section 10(h)) provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds and this Federal funding is not reflected in the accompanying financial statements. Also these financial statements do not include the Special Fund administered by the Mayor for injury cases occurring after July 26, 1982.

B. Financing Sources

The Fund's primary source of revenues is annual assessments of insurance carriers and self-insured employers. Other sources of revenues are interest income, fines and penalties, and death benefit proceeds.

C. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for Federal agencies, as established by the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting.

D. Principal Financial Statements

The principal financial statements of the Fund which were prepared in accordance with the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting are:

Statement of Financial Position
Statement of Operations
Statement of Changes in Financial Position
Statement of Reconciliation to Budget Reports

NOTE 2 - INVESTMENTS

Investments at September 30, 1988 consist of short-term U.S. Treasury Bills and are stated at amortized cost which approximates market. In addition, it is the policy of the Fund to hold the bills to maturity.

Note 3 - ACCOUNTS RECEIVABLE

The detail of accounts receivable for the Fund at September 30, 1988 is as follows:

Assessments receivable	$157,157
Claimant overpayments	148,415
	305,572
Less allowance for doubtful accounts receivable	(63,568)
Net accounts receivable	$242,004

Assessments receivable represent the unpaid annual assessments from the current and prior years.

Accounts receivable from overpayments to claimants arise primarily from amended compensation orders and corrections of payment computations. These receivables are being primarily received by partial withholding of benefit payments.

Note 4 - ACCOUNTS PAYABLE

Accounts payable represent the amount of compensation and benefits due to claimants and medical providers which are for services rendered or benefits due for periods prior to September 30, 1988. Additionally, included in accounts payable are $920,078 of assessment revenue overpayments which are to be refunded upon request or applied to reduce future assessments.

Note 5 - DEFERRED REVENUES

Deferred revenues represent the unearned assessment revenues as of September 30, 1988, the Fund's accounting year end. The annual assessments cover a calendar year and, accordingly, the portion extending beyond September 30 has been deferred. These deferred revenues have been determined on a pro rata monthly basis.

Note 6 - FUND EQUITY

Fund balance at September 30, 1988 represents the net difference between expenses and financing sources of the Fund during the current and prior periods.

Note 7 - COMMITMENTS AND CONTINGENCIES

Section 39(c)(2) of the District of Columbia Workers' Compensation Act authorizes vocational rehabilitation of disabled employees and Section 8(g) provides additional compensation to disabled employees while undergoing rehabilitation training. Rehabilitation services paid from the Fund are mainly provided by private counselors and private training facilities. The rehabilitation agreements are funded by future assessments from the insurance carriers and self-insured employers. The amount of the outstanding rehabilitation agreements at September 30, 1988 is $26,130.

Note 8 - RESTATEMENT OF BEGINNING FUND EQUITY

Beginning fund balance for 1988 has been restated to correct accounts for 1987. The effect of this restatement was to reduce the ending fund equity for 1987 by $70,324 and to increase the 1987 net results of operations by $124,442. A description of each item and the effect on fund equity and net results of operations are as follows:

	Fund Equity	Net Results of Operations
Balance at September 30, 1987 as previously reported	$6,357,809	$4,335,790
Prior period adjustments:		
Reclassification of "Future Financing Sources" to equity	(16,928)	—
Correction of deferred revenues	(53,396)	(53,396)
Correction of prior year account receivable collections reported as revenue	—	(125,000)
Correction of assessment revenues	—	302,838
Balance at September 30, 1987 as restated	$6,287,485	$4,460,232

Note 9 - DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR FEDERAL AGENCIES

Management has elected not to present comparative financial statements. The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 - Accounting requires comparative statements to be presented. Management has not presented comparative financial statements since the financial statements for 1987 did not present the four required financial statements and to do so for 1988 presentation would require reissuance of the prior year report. Management has agreed to present comparative financial statements in future years.

DI MILLER, DENNY, WORD & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Elizabeth Dole
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have audited the financial statements of the U.S. Department of Labor - District of Columbia Workmens' Compensation Act Special Fund (Fund) for the year ended September 30, 1988, and have issued our reports thereon dated December 22, 1988. As part of our audit, we made a study and evaluation of the system of internal accounting control of the Fund to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision). The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation include the following systems which encompass the Fund's significant internal accounting controls:

Office of Management, Administration and Planning Longshore Accounting System (including District of Columbia)
Division of Longshore and Harbor Workers' Compensation Special Fund System (including District of Columbia)

The management of the Fund is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles for Federal agencies.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the

system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control for the Fund taken as a whole or on any of the systems identified in the first paragraph. However, our study and evaluation disclosed the conditions discussed in the following section which we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Fund may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the 1988 financial statements and this report does not affect our report on the financial statements dated December 22, 1988.

This report is intended solely for the use of the management of the Fund and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Department of Labor is a matter of public record.

Demiller, Denny, Ward & Co

December 22, 1988

CORRECTIVE ACTION TAKEN ON PRIOR YEAR'S REPORTED WEAKNESSES

The study and evaluation of internal accounting controls, made as part of the audit of the financial statements of the District of Columbia's Workmens' Compensation Act Special Fund (Fund) for the year ended September 30, 1987, disclosed several weaknesses in internal accounting controls which could result in errors or irregularities in amounts material in relation to the Fund's financial statements. The errors or irregularities may not be promptly detected. These areas of weakness were as follows:

A. Accrual Basis of Reporting
B. Internal Controls
C. Assessments

The prior year reported recommendations were reviewed by us during our audit of the Fund's financial statements for the year ended September 30, 1988 and we feel that the Fund has adequately resolved these weaknesses except as noted elsewhere in this report.

I. FINANCIAL REPORTING PROCEDURES NEED IMPROVEMENT.

Background

The reporting entity of the accompanying financial statements is the District of Columbia Workmens' Compensation Act Special Fund (Fund) for injury cases prior to July 26, 1982. The Fund is administered by the Division of Longshore and Harbor Workers' Compensation (Program). The Program, while administering the Fund, relies primarily on ESA's Office of Management, Administration and Planning (OMAP) to prepare monthly financial statements for the Fund. OMAP's Division of Financial Management (DFM) has direct responsibility for preparation of the Fund's financial statements while the actual financial statements are the responsibility of the Program.

Finding

We obtained the statements of financial condition of the Fund as of September 30, 1988 which were prepared by DFM for the Program. Several audit adjustments were made to these statements in the following areas:

- Deferred revenues
- Accounts receivable - assessments
- Accounts receivable - claimant overpayments
- Allowance for uncollectible accounts
- Accounts payable

Reasons for Audit Adjustments

Deferred revenues

The liability reported by DFM at September 30, 1988 was $1,674,914. The liability determined by the audit was $1,626,291, an overstatement of $48,623. We calculated the liability using the final assessment for 1988 and established three months' deferral using a monthly pro rata basis.

Accounts receivable - assessments

The amount reported per the DFM statement of financial condition showed a credit balance of $2,404,907. The audited balance of accounts receivable was determined to be a credit balance of $762,921, prior to exclusion of assessments

receivable credit balances, resulting in an understatement of $1,641,986. This understatement was the result of the following:

Prior year audit adjustment not posted	$1,570,191
Errors in the control balance of assessments receivable	71,795
	$1,641,986

The reasons for the errors in the control balance of assessment receivables are discussed in Item II.

Accounts receivable - claimant overpayments

The statement of financial condition failed to report receivables from claimant overpayments totaling $148,415. It was determined that these balances had not been reported by Program management to DFM during the year.

Allowance for uncollectible accounts

The allowance for uncollectible accounts per DFM was reported to be $314,000. The audited balance was determined to be $63,568. This variance of $250,432 was determined to be a prior year audit adjustment which had not been posted.

Accounts payable

The accounts payable reported by DFM was $55,041. The audited balance of accounts payable was determined to be $694,855 prior to inclusion of assessments receivable credit balances. The variance of $639,814 was determined by us based upon review of subsequent payments after September 30, 1988 which had incurred dates prior to year end.

Summary

The above audit adjustments reflect significant changes to the reported financial position of the Fund between DFM and our audit. Some of the above differences relate to DFM's failure to post prior year audit adjustments. This indicates that weaknesses are present in the monthly communications between the financial activities of the Program and the financial statement services provided by DFM. The above noted adjustments to accounts receivable -claimant overpayments, allowance for doubtful accounts and accounts payable are additional evidence that communication between DFM and the Program needs to be improved.

Recommendations

We recommend that the Program and DFM establish procedures to ensure that:

- adjustments resulting from the annual audit be recorded by DFM and reflected in the statement of financial condition;

- accounts receivable, accounts payable and allowance for doubtful account information be reported by the Program on a monthly basis to DFM so that the statement of financial condition presents a more accurate representation of the Fund and permits management to review monthly accounting activity;

- DFM utilize a monthly pro rata basis for amortizing the annual assessment to income; and

- responsibilities for financial information (origination, distribution and presentation) are documented.

ESA's Response

- We have requested data to back-up the recommended entries to our accounts from the auditors. As soon as this data is received, we will make the recommended adjusting entry for the prior year.

- The DFM Systems Accountant is meeting with the program staff responsible for determining accounts receivable, accounts payable and allowance for doubtful accounts amounts. DFM and the Program will arrange a method of determining and recording this information and DFM will supply the information to the DOL Office of Accounting for entry into the General Ledger.

- The DFM Systems Accountant is prorating the total assessment, as provided by the program staff, for the total year. One-twelfth of the total assessment is charged to each month as earned revenue. When the final assessment is prepared by the Program in July\August each year, the monthly charge is adjusted accordingly.

- The DFM Systems Accountant will meet with program staff to develop procedures for documenting responsibilities for sharing financial information necessary to the accounting system.

Auditors' Conclusion

- The Program's planned actions appear adequate to address the recommendations. The four recommendations are resolved but not yet closed. To close the recommendations, ESA should provide to OIG:

- copies of the accounting entries for the audit adjustments;

- procedures for reporting accounts receivable, accounts payable, and allowance for doubtful accounts to DFM;

- monthly report or schedule showing prorating of the assessments; and

- procedures for financial reporting.

II. RECORDKEEPING PROCEDURES NEED IMPROVEMENT.

Accounts receivable - assessments

Background

Insurance carriers and self-insured employers are assessed on a semi-annual basis by the Program to provide money for the operation of the Fund. During our audit, we encountered many difficulties in determining the accuracy of the accounts receivable from assessments reported in the DFM statement of financial condition at September 30, 1988. We essentially had to reconstruct the accounts receivable account. The additional procedures were performed because the subsidiary records had not been reconciled to the control account of the DFM Status of Funds report at September 30, 1988.

Findings

During our audit we noted the following weaknesses in internal controls over accounts receivable for assessments:

1. An audit adjustment from the prior year had not been recorded.

2. The Program and DFM are not performing monthly reconciliations between the subsidiary records and the control account.

3. The Program does not always document changes to the annual assessments which are granted by the Program's Insurance and Assessment Section nor do the outstanding accounts receivable balances always reflect these changes.

4. Several accounts receivable credit balances from overpayments had not been refunded after the Program had received a written request for the refund.

5. Duties relating to accounts receivable from assessments are not efficiently and effectively separated, since one employee of the Program's Insurance and Assessment Section performs virtually all accounting and administrative functions including calculation of the annual assessment, maintenance of subsidiary records, maintenance of the receivable control account, approving changes to annual assessments, and authorizing refunds.

6. The Program does not have written procedures relating to accounting and administrative procedures for accounts receivable.

Recommendations

We recommend that the Program establish procedures to ensure that:

- monthly reconciliations of accounts receivable from assessments are performed between DFM and the Program to verify that the control account reported on the Status of Funds is fully supported by subsidiary detail;

- write-offs and uncollectible amounts are supplied on a monthly basis to DFM by the Program to ensure accurate and timely reporting;

- a system is developed to account and approve the changes granted on individual assessments;

- a system is developed to follow-up on credit balances resulting form overpayments to ensure timely refunds once requested or utilization of credit to reduce future assessments;

- effective separation of duties are implemented in the assessment revenue and accounts receivable process to ensure that key functions are not performed by the same individual; and

- the accounting and administrative policies relating to the assessment revenue and accounts receivable process are documented.

ESA's Response

- The DFM Systems Accountant and the program staff are developing procedures that will ensure that monthly reconciliations of accounts are accomplished between the program and DFM.

- ESA agrees and it will be part of the monthly reconciliation.

- The Director, Division of Longshore and Harbor Workers' Compensation, will approve each change granted on individual assessments.

- During 1989 all existing credit balances will be refunded, and future credit balances will be refunded when a request is received.

- ESA agrees. The recent reorganization in the National Office provides resources for the handling of assessment payments to be handled by a different individual than was involved in the billing.

- ESA agrees. A joint venture between OWCP and DFM will analyze the process and initiate development of procedures during FY 89.

Auditors' Conclusion

- The Program's planned actions appear adequate to address the recommendations. The six recommendations are resolved but not yet closed. To close the recommendations, ESA should provide copies of the requested procedures to OIG.

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Honorable Elizabeth Dole
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

REPORT ON COMPLIANCE

We have audited the financial statements of the U.S. Department of Labor - District of Columbia Workmens' Compensation Act Special Fund for the fiscal year ended September 30, 1988, and have issued our report thereon dated December 22, 1988. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision), issued by the U.S. General Accounting Office, and such other auditing procedures as we considered necessary in the circumstances. The management of the Division of Longshore and Harbor Workers' Compensation is responsible for compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the Division's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Division. With regard to the Department of the Treasury's Financial Reporting Requirements, compliance is primarily determined by Department of Labor policies, as implemented in Department-wide systems.

The results of our tests indicate that for the items tested, except for matters noted in the Report on the Financial Statements and the Report on Internal Control, the Division of Longshore and Harbor Workers' complied with the provision of laws and regulations referred to above. With respect to the transactions not tested, nothing came to our attention to indicate that the Division had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

DeMiller, Denny, Ward & Co.

U.S. Department of Labor

Assistant Secretary for
Employment Standards
Washington D C 20210

16 MAR 1989

MEMORANDUM FOR: J. BRIAN HYLAND
Inspector General

FROM: ALAN C. McMILLAN
Acting Assistant Secretary

SUBJECT: Draft Audit Reports for FY 1988 -- Longshore and Harbor Workers' Compensation Act Special Fund Financial Statements and District of Columbia Workers' Compensation Act Special Fund Financial Statements
Project No. 03-T88-077-04-432

Requested comments regarding your audits of the FY 1988 financial statements for the special funds established by the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workers' Compensation Act are as follows:

OIG Recommendation:

"We recommend that the Program and DFM establish procedures to ensure that:

- adjustments resulting from the annual audit be recorded by DFM and reflected in the statement of financial condition;

ESA Response:

We have requested data to back-up the recommended entries to our accounts from the auditors. As soon as this data is received, we will make the recommended adjusting entry for the prior year.

OIG Recommendation:

- Accounts receivable, accounts payable and allowance for doubtful accounts information be reported by the Program on a monthly basis to DFM so that the statement of financial condition presents a more accurate representation of the Fund and to allow for management's review of monthly accounting activity;

ESA Response:

The DFM Systems Accountant is meeting with the program staff responsible for determining accounts receivables, accounts payables and allowance for doubtful accounts amounts. DFM and the program will arrange a method of determining and recording this information and DFM will supply the information to the DOL Office of Accounting for entry into the General Ledger.

OIG Recommendation:

- DFM utilize a monthly pro rata basis for amortizing the annual assessment to income;

ESA Response:

The DFM Systems Accountant is prorating the total assessment, as provided by the program staff, for the total year. One-twelfth of the total assessment is charged to each month as earned revenue. When the final assessment is prepared by the program in July/August each year, the monthly charge is adjusted accordingly.

OIG Recommendation:

- the Program and DFM develop written procedures to document responsibilities for financial information (origination, distribution and presentation)."

ESA Response:

The DFM Systems Accountant will meet with program staff to develop procedures for documenting responsibilities for sharing financial information necessary to the accounting system.

OIG Recommendation:

"We recommend that the Program establish procedures to ensure that:

- Monthly reconciliations of accounts receivable from assessments are performed between DFM and the Program to verify that the control account reported on the Status of Funds is fully supported by subsidiary detail;

ESA Response:

The DFM Systems Accountant and the program staff are developing procedures that will ensure that monthly reconciliations of accounts are accomplished between the program and DFM.

OIG Recommendation:

- Write-offs and uncollectible amounts are supplied on a monthly basis to DFM by the Program to ensure accurate and timely reporting.

ESA Response:

ESA agrees and it will be part of the monthly reconciliation.

OIG Recommendation:

- The Program develop a system to account and approve the changes granted on individual assessments.

ESA Response:

The Director, Division of Longshore and Harbor Workers' Compensation, will approve each change granted on individual assessments.

OIG Recommendation:

- The Program develop a system to follow-up on credit balances resulting from overpayments to ensure timely refunds once requested or utilization of credits to reduce future assessments.

ESA Response:

During 1999 all existing credit balances will be refunded, and future credit balances will be refunded when a request is received.

OIG Recommendation:

- The Program implement effective separation of duties in assessment revenue and accounts receivable process to ensure that key functions are not performed by the same individual.

ESA Response:

ESA agrees. The recent reorganization in the National Office provides resources for the handling of assessment payments to be handled by a different individual than was involved in the billing.

OIG Recommendation:

- The Program develop written procedures relating to the assessment revenue and accounts receivable process to document the accounting and administrative policies.

ESA Response:

ESA agrees. A joint effort between OWCP and DFM will analyze the process and initiate development of procedures during FY 89.

Appendix C: FY 1988 Audit of LHWCA Special Fund: Financial Statements and Accountants' Report, September 30, 1988*

* OIG Report No. 03-89-037-04-432, prepared by DeMiller, Denny, Word & Co., CPA, Jackson, Mississippi, December 22, 1988, under contract to DOL's Office of the Inspector General.

DEMILLER, DENNY, WORD & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Elizabeth Dole
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

We have audited the accompanying statement of financial position of the U.S. Department of Labor - Longshore and Harbor Workers' Compensation Act Special Fund, as of September 30, 1988, and the related statements of operations, changes in financial position, and reconciliation to budget reports for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision), issued by the U.S. General Accounting Office. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10, management has elected not to present comparative financial statements for the year ended September 30, 1987. Management has not presented comparative financial statements since the financial statements for 1987 did not present the four required financial statements and to do so for 1988 presentation would require the reissuance of the prior year report. Comparative financial statements are required by General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting.

In our opinion, except that the omission of comparative financial statements results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor -Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 1988, and the results of its operations, changes in financial position and reconciliation to budget reports for the year ended September 30, 1988, in conformity with generally accepted accounting principles for Federal agencies.

De Miller, Denny, Ward & Co.

December 22, 1988

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
September 30, 1988

ASSETS	
Funds with U.S. Treasury (Note 2)	$ 528,124
Investments (Note 3)	26,189,371
Accounts receivable, net of allowance for doubtful accounts of 6,402,764 (Note 4)	3,957,311
Accrued interest receivable	217,441
Total assets	$30,892,247
LIABILITIES	
Accounts payable (Note 5)	$ 2,160,080
Deferred revenue (Note 6)	15,742,661
Total liabilities	17,902,741
EQUITY (Notes 7,8, and 9)	
Fund balance	12,989,506
Total liabilities and equity	$30,892,247

The Notes to Financial Statements are an integral part of this statement.

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
SPECIAL FUND
STATEMENT OF OPERATIONS
Year Ended September 30, 1988

REVENUES	
Assessments	$59,209,038
Investment income	1,075,701
Other income	86,760
Total revenues	60,371,499
EXPENSES	
Second injury compensation-Section 8(f)	55,254,795
Wage increase compensation-Section 10(h)	3,130,786
Compensation payment for self-insurer in default-Section 18(b)	3,212,663
Rehabilitation-Section 39(c)	3,325,938
Rehabilitation maintenance-Section 8(g)	164,041
Medical services-Section 7(e)	12,325
Other disbursements	66,254
Provision for doubtful accounts	342,468
Total expenses	65,509,270
Net results of operations	$(5,137,771)

The Notes to Financial Statements are an integral part of this statement.

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
SPECIAL FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended September 30, 1988

SOURCES OF FUNDS:	
Total revenues	$ 60,371,499
Sale of investments	103,132,315
Increase in accounts payable	1,853,768
Increase in deferred revenue	3,490,109
Total sources of funds	168,847,691
USES OF FUNDS:	
Total expenses	65,509,270
Purchase of investments	104,273,177
Increase in accounts receivable	1,339,030
Accrued interest receivable	114,625
Total uses of funds	171,236,102
Decrease in funds	(2,388,411)
Funds with U.S. Treasury September 30, 1987	2,916,535
Funds with U.S. Treasury September 30, 1988	$ 528,124

The Notes to Financial Statements are an integral part of this statement.

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
SPECIAL FUND
STATEMENT OF RECONCILIATION TO BUDGET REPORTS
Year Ended September 30, 1988

Total expenses per Statement of Operations:	$65,509,270
Reconciling items:	
Provision for doubtful accounts	(342,468)
Reclassification of third party settlements overpayments	(18,957)
Refunds of prior year overpayments	49,944
Increase in claimant overpayments	871,903
Increase in accounts payable	(1,669,895)
Outlays	$64,399,797

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The reporting entity is the Longshore and Harbor Workers' Compensation Act Special Fund (Fund). The Fund is administered by the Employment Standards Administration (ESA) which is an agency within the United States Department of Labor. Within ESA, the Division of Longshore and Harbor Workers' Compensation has direct responsibility for administration of the Fund. The Fund offers compensation and medical care payments to employees disabled from injuries which occurred on the navigable waters of the United States, or in adjoining areas used for loading, unloading, repairing, or building a vessel. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

Administrative services for operating the Fund are provided by the Division of Longshore and Harbor Workers' Compensation at no cost to the Fund.

Additionally, the Longshore and Harbor Workers' Compensation Act (Section 10(h)) provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds and this Federal funding is not reflected in the accompanying financial statements.

B. Financing Sources

The Fund's primary source of revenues is annual assessments of insurance carriers and self-insured employers. Other sources of revenues are interest income, fines and penalties, and death benefit proceeds.

C. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for Federal agencies, as established by the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting.

D. Principal Financial Statements

The principal financial statements of the Fund which were prepared in accordance with the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -Accounting are:

Statement of Financial Position
Statement of Operations
Statement of Changes in Financial Position
Statement of Reconciliation to Budget Reports

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with the U.S. Treasury at September 30, 1988 include $79,387 which is being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. These held funds relate to the default of a self-insured employer during 1987 and are restricted. These funds are available for payment of compensation and medical benefits to covered employees of the defaulted company. Management estimates that the funds held will be sufficient to cover the future benefits associated with these covered employees.

NOTE 3 - INVESTMENTS

Investments at September 30, 1988 consist of short-term U.S. Treasury Bills and are stated at amortized cost which approximates market. In addition, it is the policy of the Fund to hold the bills to maturity.

Note 4 - ACCOUNTS RECEIVABLE

The detail of accounts receivable for the Fund at September 30, 1988 is as follows:

Assessments receivable	$8,628,918
Claimant overpayments	1,712,506
Third party settlements	18,651
	10,360,075
Less allowance for doubtful accounts	(6,402,764)
Net accounts receivable	$3,957,311

Assessments receivable represent the unpaid annual assessments from the current and prior years.

Accounts receivable from overpayments to claimants arise primarily from amended compensation orders and corrections of payment computations. These receivables are being primarily recovered by partial withholding of benefit payments.

Receivables from third parties are the result of court orders whereby a party other than the employer has been determined to be at fault. These amounts are generally recovered at the time the settlement is ordered.

Note 5 - ACCOUNTS PAYABLE

Accounts payable represent the amount of compensation and benefits due to claimants and medical providers which are for services rendered or benefits due for periods prior to September 30, 1988. Additionally, included in accounts payable are $369,822 of assessment overpayments which are to be refunded upon request or applied to reduce future assessments.

Note 6 - DEFERRED REVENUES

Deferred revenues represent the unearned assessment revenues as of September 30, 1988, the Fund's accounting year-end. The annual assessments cover a calendar year and, accordingly, the portion extending beyond September 30 has been deferred. These deferred revenues have been determined on a monthly pro rata basis.

Note 7 - FUND EQUITY

Fund balance at September 30, 1988 represents the net difference between expenses and financing sources of the Fund during the current and prior periods.

Note 8 - COMMITMENTS AND CONTINGENCIES

Section 39(c)(2) of the Longshore and Harbor Workers' Compensation Act authorizes vocational rehabilitation of disabled employees and Section 8(g) provides additional compensation to disabled employees while undergoing rehabilitation training. Rehabilitation services paid from the Fund are mainly provided by private counselors and private training facilities. The rehabilitation agreements are funded by future assessments from the insurance carriers and self-insured employers. The amount of the outstanding rehabilitation agreements at September 30, 1988 are $4,127,289.

Note 9 - RESTATEMENT OF BEGINNING FUND EQUITY

Beginning fund balance for 1988 has been restated to correct accounts for 1987. The effect of this restatement was to reduce the ending fund equity for 1987 by $7,299,878 and to reduce the 1987 net result of operations by $3,124,176. A description of each item and the effect on fund equity and net results of operations for 1987 is as follows:

	Fund Equity	Net Results of Operations
Balance at September 30, 1987 as previously reported	$25,427,154	$5,595,693
Prior period adjustments:		
Reclassification of "Future Financing Sources" to equity	(4,430,391)	—
Correction of deferred revenues	(3,601,452)	(3,601,452)
Correction of the accounts receivable from overpayments to claimants	731,965	731,965
Correction of prior year accounts receivable collections reported as revenue	—	(254,689)
Balance at September 30, 1987 as restated	$18,127,276	$2,471,517

Note 10 - DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR FEDERAL AGENCIES

Management has elected not to present comparative financial statements. The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2-Accounting requires comparative statements to be presented. Management has not presented comparative financial statements since the financial statements for 1987 did not present the four required financial statements and to do so for 1988 presentation would require the reissuance of the prior year report. Management has agreed to present comparative financial statements in future years.

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Washington, D.C. 20210

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have audited the financial statements of the U.S. Department of Labor - Longshore and Harbor Workers' Compensation Act Special Fund (Fund) for the year ended September 30, 1988, and have issued our reports thereon dated December 22, 1988. As part of our audit, we made a study and evaluation of the system of internal accounting control of the Fund to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision). The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation include the following systems which encompass the Fund's significant internal accounting controls:

Office of Management, Administration and Planning Longshore Accounting System
Division of Longshore and Harbor Workers' Compensation Special Fund System

The management of the Fund is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles for Federal agencies.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that

procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control for the Fund taken as a whole or on any of the systems identified in the first paragraph. However, our study and evaluation disclosed the conditions discussed in the following section which we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Fund may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the 1988 financial statements and this report does not affect our report on the financial statements dated December 22, 1988.

This report is intended solely for the use of the management of the Fund and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Department of Labor is a matter of public record.

Deloitte, Denny, Ward + Co.

December 22, 1988

CORRECTIVE ACTION TAKEN ON PRIOR YEAR'S REPORTED WEAKNESSES

The study and evaluation of internal accounting controls, made as part of the audit of the financial statements of the Longshore and Harbor Workers' Compensation Act Special Fund (Fund) for the year ended September 30, 1987, disclosed several weaknesses in internal accounting controls which could result in errors or irregularities in amounts material in relation to the Fund's financial statements. The errors or irregularities may not be promptly detected. These areas of weakness were as follows:

A. Accrual Basis of Reporting
B. Internal Controls
C. Assessments

The prior year reported recommendations were reviewed by us during our audit of the Fund's financial statements for the year ended September 30, 1988 and we feel that the Fund has adequately resolved these weaknesses except as noted elsewhere in this report.

I. FINANCIAL REPORTING PROCEDURES NEED IMPROVEMENT.

Background

The reporting entity of the accompanying financial statements is the Longshore and Harbor Workers' Compensation Act Special Fund (Fund). The Fund is administered by the Division of Longshore and Harbor Worker' Compensation (Program). The Program, while administering the Fund, relies primarily on ESA's Office of Management, Administration and Planning (OMAP) to prepare monthly financial statements for the Fund. OMAP's Division of Financial Management (DFM) has direct responsibility for preparation of the Fund's financial statements while the actual financial statements are the responsibility of the Program.

Finding

We obtained the statements of financial condition of the Fund as of September 30, 1988 which were prepared by DFM for the Program. Several audit adjustments were made to these statements in the following areas:

- Deferred revenues
- Accounts receivable - assessments
- Accounts receivable - claimant overpayments and third party recoveries
- Allowance for uncollectible accounts
- Accounts payable

Reasons for Audit Adjustments

Deferred Revenues

The liability reported by DFM at September 30, 1988 was $13,026,725. The liability determined by the audit was $15,742,661, an understatement of $2,715,936. We calculated the liability using the final assessment for 1988 and established three months' deferral using a monthly pro rata basis.

Accounts receivable - assessments

The amount reported per the DFM statement of financial condition showed a balance of $8,167,300. The audited balance of accounts receivable was determined to be a net balance of $8,259,096, prior to exclusion of assessments receivable credit balances, resulting in an understatement of $91,796. This understatement was the result of the following:

Prior year audit adjustment not posted	$ 9,772
Errors in the control balance of assessments receivable	82,024
	$91,796

The reasons for the errors in the control balance of assessment receivables are discussed in Item II.

Accounts receivable - claimant overpayments and third party recoveries

The statement of financial condition failed to report receivables from claimant overpayments and third party recoveries totaling $1,731,157. It was determined that these balances had not been reported by Program management to DFM during the year.

Allowance for uncollectible accounts

The allowance for uncollectible accounts per DFM was reported to be $3,181,361. The audited balance was determined to be $6,402,764. This variance of $3,221,403 is as follows:

Prior year audit adjustment not posted	$3,002,159
Current year increase in allowance	219,244
	$3,221,403

The current year increase in the allowance was determined based upon review of subsequent collections, confirmation procedures and discussions with Program management.

Accounts payable

The accounts payable reported by DFM were $371,906. The audited balance of accounts payable was determined to be $1,790,258 prior to inclusion of assessments receivable credit balances. The variance of $1,418,352 was determined by the auditors based upon review of subsequent payments after September 30, 1988 which had incurred dates prior to year end.

Summary

The above audit adjustments reflect significant changes to the reported financial position of the Fund between DFM and our audit. Some of the above differences relate to DFM's failure to post prior year audit adjustments. This indicates that weaknesses are present in the monthly communications between the financial activities of the Program and the financial statement services provided by DFM. The above noted adjustments to accounts receivable - claimant overpayments and third parties, allowance for doubtful accounts, and accounts payable are additional evidence that communication between DFM and the Program needs to be improved.

Recommendations

We recommend that the Program and DFM establish procedures to ensure that:

- adjustments resulting from the annual audit be recorded by DFM and reflected in the statement of financial condition;

- accounts receivable, accounts payable, and allowance for doubtful accounts information be reported by the Program on a monthly basis to DFM so that the statement of financial condition presents a more accurate representation of the Fund and permits management to review monthly activity;

- DFM utilize a monthly pro rata basis for amortizing the annual assessment to income; and

- responsibilities for financial information (origination, distribution and presentation) are documented.

ESA's Response

- We have requested data to back-up the recommended entries to our accounts from the auditors. As soon as this data is received, we will make the recommended adjusting entry for the prior year.

- The DFM Systems Accountant is meeting with the program staff responsible for determining accounts receivable, accounts payable and allowance for doubtful accounts amounts. DFM and the Program will arrange a method of determining and recording this information and DFM will supply the information to the DOL Office of Accounting for entry into the General Ledger.

- The DFM Systems Accountant is prorating the total assessment, as provided by the program staff, for the

total year. One-twelfth of the total assessment is charged to each month as earned revenue. When the final assessment is prepared by the Program in July\August each year, the monthly charge is adjusted accordingly.

- The DFM Systems Accountant will meet with program staff to develop procedures for documenting responsibilities for sharing financial information necessary to the accounting system.

Auditors' Conclusion

- The Program's planned actions appear adequate to address the recommendations. The four recommendations are resolved but not yet closed. To close the recommendations, ESA should provide to OIG:

  - copies of the accounting entries for the audit adjustments;

  - procedures for reporting accounts receivable, accounts payable, and allowance for doubtful accounts to DFM;

  - monthly report or schedule showing prorating of the assessments; and

  - procedures for financial reporting.

II. RECORDKEEPING PROCEDURES NEED IMPROVEMENT.

Accounts receivable - assessments

Background

Insurance carriers and self-insured employers are assessed on a semi-annual basis by the Program to provide money for the operation of the Fund. During our audit, we encountered many difficulties in determining the accuracy of the accounts receivable from assessments reported in the DFM statement of financial condition at September 30, 1988. We essentially reconstructed the current year accounts receivable by beginning with the individual assessment statements and verifying collections to deposit receipts. This was performed because the subsidiary records had not been reconciled to the control account of the DFM Status of Funds report at September 30, 1988. Additional delays resulted because adjustments which were made to the individual assessment statements were not always documented.

Findings

During our audit we noted the following weaknesses in internal controls over accounts receivable for assessments:

1. An audit adjustment from the prior year had not been recorded.

2. The Program and DFM are not performing monthly reconciliations between the subsidiary records and the control account.

3. The Program presently is providing bad debt information to DFM on an annual basis; therefore, the accounts receivable net of allowance does not always reflect the Program's knowledge of the true receivables.

4. The Program does not always document changes to the annual assessments which are granted by the Program's Insurance and Assessment Section, nor do the outstanding accounts receivable balances always reflect these changes.

5. Several accounts receivable credit balances from overpayments had not been refunded after the Program had received a written request for the refund.

6. Duties relating to accounts receivable from assessments are not efficiently and effectively separated, since one employee of the Program's Insurance and Assessment Section performs virtually all accounting and administrative functions including calculation of the annual assessment, maintenance of subsidiary records,

maintenance of the receivable control account, approving changes to annual assessments, and authorizing refunds.

7. The Program does not have written procedures relating to accounting and administrative procedures for accounts receivable.

Recommendations

We recommend that the Program establish procedures to ensure that:

- monthly reconciliations of accounts receivable from assessments are performed between DFM and the Program to verify that the control account reported on the Status of Funds is fully supported by subsidiary detail;

- write-offs and uncollectible amounts are supplied on a monthly basis to DFM by the Program to ensure accurate and timely reporting;

- a system is developed to account and approve the changes granted on individual assessments;

- a system is developed to follow-up on credit balances resulting from overpayments to ensure timely refunds once requested or utilization of credit to reduce future assessments;

- effective separation of duties are implemented in the assessment revenue and accounts receivable process to ensure that key functions are not performed by the same individual; and

- the accounting and administrative policies for the assessment revenue and accounts receivable process are documented.

ESA's Response

- The DFM Systems Accountant and the program staff are developing procedures that will ensure that monthly reconciliations of accounts are accomplished between the program and DFM.

- ESA agrees and it will be part of the monthly reconciliation.

- The Director, Division of Longshore and Harbor Workers' Compensation, will approve each change granted on individual assessments.

- During 1989 all existing credit balances will be refunded, and future credit balances will be refunded when a request is received.

- ESA agrees. The recent reorganization in the National Office provides resources for the handling of assessment payments to be handled by a different individual than was involved in the billing.

- ESA agrees. A joint venture between OWCP and DFM will analyze the process and initiate development of procedures during FY 89.

Auditors' Conclusion

- The Program's planned actions appear adequate to address the recommendations. The six recommendations are resolved but not yet closed. To close the recommendations, ESA should provide copies of the requested procedures to OIG.

DEMILLER, DENNY, WORD & CO.
CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 24027
JACKSON, MISSISSIPPI 39225-4027

Honorable Elizabeth Dole
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

REPORT ON COMPLIANCE

We have audited the financial statements of the U.S. Department of Labor - Longshore and Harbor Workers' Compensation Act Special Fund for the fiscal year ended September 30, 1988, and have issued our report thereon dated December 22, 1988. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision), issued by the U.S. General Accounting Office, and such other auditing procedures as we considered necessary in the circumstances. The management of the Division of Longshore and Harbor Workers' Compensation is responsible for compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the Division's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Division. With regard to the Department of the Treasury's Financial Reporting Requirements, compliance is primarily determined by Department of Labor policies, as implemented in Department-wide systems.

The results of our tests indicate that for the items tested, except for matters noted in the Report on the Financial Statements and the Report on Internal Control, the Division of Longshore and Harbor Workers' complied with the provision of laws and regulations referred to above. With respect to the transactions not tested, nothing came to our attention to indicate that the Division had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

DeMiller, Denny, Ward & Co.

December 22, 1988

U.S. Department of Labor

Assistant Secretary for
Employment Standards
Washington D.C. 20210

16 MAR 1989

MEMORANDUM FOR: J. BRIAN HYLAND
Inspector General

FROM: ALAN C. McMILLAN
Acting Assistant Secretary

SUBJECT: Draft Audit Reports for FY 1988 -- Longshore and Harbor Workers' Compensation Act Special Fund Financial Statements and District of Columbia Workers' Compensation Act Special Fund Financial Statements
Project No. 03-T88-077-04-432

Requested comments regarding your audits of the FY 1988 financial statements for the special funds established by the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workers' Compensation Act are as follows:

OIG Recommendation:

"We recommend that the Program and DFM establish procedures to ensure that:

- adjustments resulting from the annual audit be recorded by DFM and reflected in the statement of financial condition;

ESA Response:

We have requested data to back-up the recommended entries to our accounts from the auditors. As soon as this data is received, we will make the recommended adjusting entry for the prior year.

OIG Recommendation:

- Accounts receivable, accounts payable and allowance for doubtful accounts information be reported by the Program on a monthly basis to DFM so that the statement of financial condition presents a more accurate representation of the Fund and to allow for management's review of monthly accounting activity;

ESA Response:

The DFM Systems Accountant is meeting with the program staff responsible for determining accounts receivables, accounts payables and allowance for doubtful accounts amounts. DFM and the program will arrange a method of determining and recording this information and DFM will supply the information to the DOL Office of Accounting for entry into the General Ledger.

OIG Recommendation:

- DFM utilize a monthly pro rata basis for amortizing the annual assessment to income;

ESA Response:

The DFM Systems Accountant is prorating the total assessment, as provided by the program staff, for the total year. One-twelfth of the total assessment is charged to each month as earned revenue. When the final assessment is prepared by the program in July/August each year, the monthly charge is adjusted accordingly.

OIG Recommendation:

- the Program and DFM develop written procedures to document responsibilities for financial information (origination, distribution and presentation)."

ESA Response:

The DFM Systems Accountant will meet with program staff to develop procedures for documenting responsibilities for sharing financial information necessary to the accounting system.

OIG Recommendation:

"We recommend that the Program establish procedures to ensure that:

- Monthly reconciliations of accounts receivable from assessments are performed between DFM and the Program to verify that the control account reported on the Status of Funds is fully supported by subsidiary detail;

ESA Response:

The DFM Systems Accountant and the program staff are developing procedures that will ensure that monthly reconciliations of accounts are accomplished between the program and DFM.

OIG Recommendation:

- Write-offs and uncollectible amounts are supplied on a monthly basis to DFM by the Program to ensure accurate and timely reporting.

ESA Response:

ESA agrees and it will be part of the monthly reconciliation.

OIG Recommendation:

- The Program develop a system to account and approve the changes granted on individual assessments.

ESA Response:

The Director, Division of Longshore and Harbor Workers' Compensation, will approve each change granted on individual assessments.

OIG Recommendation:

- The Program develop a system to follow-up on credit balances resulting from overpayments to ensure timely refunds once requested or utilization of credits to reduce future assessments.

ESA Response:

During 1999 all existing credit balances will be refunded, and future credit balances will be refunded when a request is received.

OIG Recommendation:

- The Program implement effective separation of duties in assessment revenue and accounts receivable process to ensure that key functions are not performed by the same individual.

ESA Response:

ESA agrees. The recent reorganization in the National Office provides resources for the handling of assessment payments to be handled by a different individual than was involved in the billing.

OIG Recommendation:

- The Program develop written procedures relating to the assessment revenue and accounts receivable process to document the accounting and administrative policies.

ESA Response:

ESA agrees. A joint effort between OWCP and DFM will analyze the process and initiate development of procedures during FY 89.

*US GOVERNMENT PRINTING OFFICE 1990-262 288/26223